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Summary record of the 9th meeting
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Chairman: Mr. Ali ..... (Malaysia)
Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. Saha

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The meeting was called to order at 10.20 a.m.

Agenda item 128: Programme budget for the biennium 2008-2009 (*continued*)

Capital master plan (continued) (A/62/5 (vol. V), A/62/281 (part I), A/62/364, and A/62/490)

1. **Mr. Park** Hee-kwon (Republic of Korea) said that his delegation appreciated the efforts of the Secretariat to expedite the capital master plan project in order to minimize the disruption of the work of the Organization. It was confident that the Executive Director of the Capital Master Plan and the construction manager, Skanska Building USA, had sufficient experience and expertise to move the project forward effectively. However, despite the progress that had been made and the Secretariat's efforts to solve the problems raised by the Board of Auditors and the fact that several risk factors would be mitigated by adoption of accelerated strategy IV, new uncertainties regarding the plan could arise as time went by.

2. His delegation would like to gain a clearer concrete sense of how the innovative technique of value engineering worked, for the Member States could not be expected to offer their trust blindly. There was no certainty, moreover, that value engineering was consistent with the Secretary-General's promise that the renovated Headquarters complex would be a model of energy-efficient architecture: long-term savings from energy efficiency must not be sacrificed to small savings on construction. More attention should be paid to staff safety and health, especially during the construction phase, and to the care and safety of visitors, who should continue to have the greatest possible access to United Nations activities during that phase. The Office of the Capital Master Plan should lead by example in the procurement process, and all bidding procedures must be fair and transparent. The Secretariat's decision to post all contract information on the relevant websites was therefore welcome. The Secretariat should redouble its efforts to secure private donations to lessen the financial burden on the Member States; it should produce a concrete plan for that purpose.

3. Since the Secretariat staff was a direct beneficiary of the implementation of the capital master plan, the relevant departments were urged to work actively with the Office, under the leadership of the Secretary-General, to propel the project forward, and the internal and external oversight bodies must continue their efforts to keep the plan on the right path. His delegation hoped that the total cost commitment made by the Secretary-General would be maintained and that the current uncertainties would be dispelled. Care and caution at the outset and steady oversight would give everyone the confidence to see what was a great act of "creative destruction" through to the end.

4. **Mr. Ren** Yisheng (China), while noting the achievements of the previous year, expressed concern that implementation of the capital master plan was lagging far behind the schedule approved by the General Assembly. Delayed implementation might result in an additional financial burden in excess of $200 million for Member States and, since the plan affected the safety of Secretariat staff, representatives of Member States and other visitors to the Headquarters complex and involved the vital interests of the membership as a whole, the Secretary-General had an obligation to do his utmost to ensure its timely implementation, in accordance with the mandate conferred upon him by the General Assembly.

5. The Advisory Committee on Administrative and Budgetary Questions had seen merit in the accelerated strategy IV proposed by the Secretary-General and therefore recommended its approval by the General Assembly. His delegation welcomed the Secretary-General's efforts and took the view that Member States should give serious consideration to the Advisory Committee's recommendation. The Secretary-General should now take effective measures to implement the relevant recommendations of the Board of Auditors and the Advisory Committee with a view to completing the project ahead of schedule in a safe and convenient manner. While it was vital to remain within the approved budget, savings identified as a result of the value engineering exercise should not compromise the quality of the work done. Lastly, procurement activities connected with the plan must be carried out in a transparent manner.

6. **Mr. Ng'ongolo** (United Republic of Tanzania), referring to paragraphs 5 and 6 of the Secretary-General's fifth annual progress report on the capital master plan (A/62/364), noted that, if the cost proposals submitted by the construction management firm under part B of its contract were rejected by the Secretariat, a new competitive bidding process would be undertaken. In that connection, he highlighted the importance of fair competition during such bidding

processes and enquired whether the possibility of reopening the bidding had been the subject of a risk assessment study.

7. According to paragraph 22 of the Secretary-General's report, the guaranteed maximum price contract awarded to the construction manager was being used on an experimental basis and had necessitated extensive technical, legal and financial reviews in order to safeguard the best interests of the Organization. He wished to know whether those reviews had been undertaken before the award of the contract.

8. He recalled that approval for the establishment of an internationally syndicated letter of credit had been given for two reasons: first, in order to offer potential contractors an assurance that funding for the plan was adequate to cover the cost of construction, and, second, to provide an alternative source of funding in the event of any disruption to the flow of assessments. In the latter case, the costs incurred as a result of borrowing from a bank would be met by those Member States that had caused the disruption. The working capital reserve had also been established for that purpose. The United Republic of Tanzania had opted for the one-time payment option in order to avoid the possibility of having to pay a surcharge for the use of the letter of credit, but it had now emerged that it had not been necessary to establish that letter. He therefore sought confirmation that the assurances given to the construction manager were credible. If so, he asked whether the working capital reserve was still necessary.

9. **Mr. Adlerstein** (Executive Director of the Capital Master Plan), responding to requests for additional information made by delegations, said that the associated costs covered a wide range of requirements, such as broadcasting equipment, furniture, removal and storage of gifts, storage space for gifts, and archive space and other storage facilities, as well as additional staff to manage the information and communications technology needs and administer the buildings and security matters.

10. The construction manager, Skanska Building USA, was contractually bound by the pre-construction services agreement to recommend which materials and services might be purchased internationally. The Office of the Capital Master Plan and the Procurement Division would work with the construction manager in developing procurement guidelines and processes to ensure that tender opportunities for the supply of such materials and services were extended to countries with developing economies or economies in transition. The Office would ensure that the processes incorporated appropriate levels of control and transparency, including the posting of invitations to tender and contract-award notices on websites.

11. The Office would do everything necessary to protect the Organization's works of art, and the renovated Headquarters buildings would provide a more suitable environment for them: the buildings would be rid of hazardous materials, and temperature and humidity would be much better controlled. The glass of the curtain walls would have properties kinder to works of art than the present glass. However, works of art housed in an operational facility required close supervision, and the Office would have to work with the Member States to determine long-term arrangements. The contract with the construction manager included the requirement that the works of art would be protected against any direct effects of the construction work, but any work of art was vulnerable to changes of temperature and humidity and to damage by fine particles. Over the coming year the Office would discuss each work of art individually with its donor: in some cases the donor might prefer to remove it temporarily; the "War" and "Peace" murals would have be protected in place; and decisions would have to be taken on those works of art which could not be moved easily.

12. The terms of reference of the advisory board had been drafted for approval by the Secretary-General. Board members would be selected on the basis of the criteria of geographical representation and the likelihood of their durability on the Board and of their experience of architecture, preservation of historical sites, financial matters, construction in New York City, project management, and construction management. The Board should be in place by the spring of 2008.

13. A number of possibilities for swing space had been evaluated, preliminary discussions had been held between the landlord of a particular building and a broker representing the United Nations, and other buildings had been discussed as backup locations. The discussions would be concluded following the decision by the General Assembly on the Secretary-General's proposals on accelerated strategy IV.

14. Value engineering meant reviewing the objectives and the actual design of the project and finding ways of attaining the objectives at lower cost. It was usually required at several points in a project because it was difficult to estimate costs accurately until the design work was at an advanced stage; it was always needed at the plan's current stage of advanced design. One of the key components of the construction manager's pre-construction responsibilities was to make value-engineering recommendations. In conjunction with all the design teams, the construction manager was currently examining the design objectives and the systems which were being planned in order to find savings by way of different routing, simpler equipment, avoidance of temporary work, less demolition, less expensive placement of equipment, changes in equipment to reflect market conditions, and changes in specifications which might expedite the construction process. Most of the changes were likely to be in the heating, ventilation, air-conditioning, electrical and plumbing systems. The Office would ensure that the standards of and expectations for the facility kept pace with the new thinking and that costs were not inadvertently increased owing to outdated expectations; one of the benefits of having a construction manager on board was to help the Office to keep abreast of innovations in industry practice. Changing to a simpler and shorter schedule under accelerated strategy IV would not only provide a cost saving in itself, but would also open the door to other simplified design concepts which avoided cost by avoiding the need for temporary work.

15. As of 22 October 2007, all 19 temporary positions in the Office were occupied, and there were eight support posts in other departments.

16. Turning to the matters raised by the Board of Auditors, he said that a geotechnical investigation was in progress on the North Lawn to determine subsurface conditions for the purpose of designing the foundations of the temporary conference building. A recently completed survey had identified the location, to a quarter of an inch, of the underground building in relation to other site features, and had provided additional site information needed for the design of the foundations. Scaffolding was to be erected in a few days' time to determine the exact condition of the stone anchors on the façade of the Secretariat building.

17. **Mr. Sach** (Controller), replying to questions raised by the representative of the United Republic of Tanzania, said that the issue of the credibility of the financial assurances given to the construction manager had two elements which must be kept separate: whether the overall cost estimates were credible and whether the working capital reserve and the letter of credit were needed. In paragraph 53 (c) of his report, the Secretary-General reiterated his commitment that the budget would remain at the authorized level. The Secretariat had no doubts at present that the project would be brought to completion within budget. The working capital reserve and the letter of credit had not yet been used but they would remain in place throughout the project to ensure that the construction manager had a sufficient supply of funds to pay vendors in the event that the payment of assessed contributions by Member States was slow or uneven. The likelihood of needing to draw on the working capital reserve and the letter of credit would increase over time. The system of specific projects referred to in paragraphs 6 and 7 of the Secretary-General's report was new to the United Nations but not in construction circles in New York City.

18. At the preceding meeting the representative of Pakistan had correctly pointed out that the last word in paragraph 48 of the report should be "mandate" not "recommendation"; a correction would be issued.

19. **Mr. Afifi** (Egypt) said that most of the additional information and answers to questions just given by the Executive Director and the Controller merely told the Committee what it already knew.

20. The question about associated costs was concerned not with the source of such costs but with the reasons why they had not been calculated until now. The question on the advisory board was not about its composition and the appointment of its members but about the reasons why it had not been established at least a year earlier. With regard to swing space, the question was not how much space but the extent to which it was guaranteed — a crucial element of the whole project. The point about value engineering was why, if savings were possible, they had not been brought forward earlier, during the budget discussion in 2006.

21. The question about technical surveys raised by the Board of Auditors was concerned with the reasons why such surveys had not been conducted earlier and the extent to which they would increase costs and delay the implementation of the project. The commitment in

paragraph 53 (c) of the Secretary-General's report, mentioned by the Controller, went without saying, for no such assurance was needed. The question was how the Secretary-General would ensure that the project remained within budget.

22. **Mr. Hussain** (Pakistan), speaking on behalf of the Group of 77 and China, enquired whether value engineering was a recent concept and whether the decision to pursue a value engineering exercise had been taken by the construction management firm or by the Administration. He also wondered why the Secretariat was unable to provide assurances that that exercise would lead to a reduction in the overall cost of the project.

23. Recalling the serious concerns expressed by the Board of Auditors about the lack of internal controls to ensure compliance with General Assembly mandates, he pointed out that the Administration was primarily responsible for the failure to implement the capital master plan because it had been insufficiently responsive. The Secretariat did not appear to take its failings very seriously, and he wished to know whether it had any plans to introduce new internal control systems and accountability mechanisms to ensure that past mistakes were not repeated.

24. Member States also needed concrete assurances that the new accelerated strategy, if approved, would not collapse at some point in the future and that it would not be the subject of constant revisions. In the worst case scenario, he asked who would be held accountable for cost overruns.

25. Lastly, while the Group of 77 and China understood the need for the working capital reserve, it would like to know whether it would be possible to dispense with the letter of credit once it became clear that the project could be fully funded through assessed contributions from Member States.

26. **Mr. Adlerstein** (Executive Director of the Capital Master Plan), responding to the questions raised by the representative of Pakistan, said that, far from being a new concept, value engineering had been standard practice in the construction industry for decades. During the pre-construction phase of any project, it was usual to revisit the costing parameters with a view to identifying potential savings, and the Administration had always intended to conduct such an exercise in respect of the capital master plan. Every effort would be made to ensure that the budget for the plan remained as lean as possible, and any opportunity to bring the total cost of the project down to below the approved level would be pursued.

27. The Board of Auditors had not expressed concern about a lack of internal controls. Rather, it had highlighted a failure to take certain decisions in a timely manner, and steps were currently being taken to expedite the decision-making process in key areas.

28. The award of the construction management contract to Skanska Building USA had been a major milestone in the implementation of the capital master plan. Once the value-engineering exercise was completed, construction activities would begin, and once construction was under way it would be prohibitively expensive to backtrack. Accordingly, while the plan might undergo minor revisions, there would be no more major changes.

29. The letter of credit was not mentioned in the construction management contract because Skanska was satisfied that the funding mechanisms for the project were adequate. No costs had been incurred as a result of the establishment of the letter of credit because it had not been required. However, it would still be possible to use the letter if circumstances changed.

The meeting rose at 11.10 a.m.